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MEETING
STATE OF CALIFORNIA
STATE LANDS COMMISSION

STATE CAPITOL
ROOM 2040

SACRAMENTO, CALIFORNIA

FRIDAY, MARCH 30, 1984

10:05 A.M.

ORIGINAL

Eileen Jennings, C.S.R.
License No. 5122

PETERS SHORTHAND REPORTING CORPORATION

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APPEARANCES

Commission Members:

Nancy Ordway, representing Jesse Huff,
Director of Finance, Chairperson

Walter Harvey, representing Kenneth Cory,
State Controller

Susan Wallace, representing Leo T. McCarthy,
Lieutenant Governor

Staff Present:

Claire T. Dedrick, Executive Officer

James F. Trout, Assistant Executive Officer

Robert C. Hight, Chief Counsel

Judy Markell, Executive Secretary

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Call to Order, Chairperson Ordway	1
I. <u>Consideration of Assignment of Royalty Oil Sales Contract PRC 6480 From Powerline Oil Company, Huntington Beach, Orange County</u>	
Staff Presentation, Mr. Hight	1
Comments by Commissioner Harvey	2
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P R O C E E D I N G S

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CHAIRPERSON ORDWAY: The one and only order of business for today is the consideration of assignment of royalty oil sales contract from Powerine Oil Company, Huntington Beach, Orange County.

EXECUTIVE OFFICER DEDRICK: I think that Bob Hight should present this item.

MR. HIGHT: Powerine filed bankruptcy on Monday and we would like to make this assignment subject to staff review of that assignment in light of the filing and staff's determination that the state's interest can be adequately protected because of that.

CHAIRPERSON ORDWAY: Why don't you go back one step and summarize the item and then condition it.

MR. HIGHT: This is a royalty oil sales contract for oil that Powerine is currently taking from Huntington Beach. It's about 1,000 barrels a day. Powerine is currently the bidder at \$2.12 above posted price. The assignment would take Powerine off the hook and put Edgington in their place.

CHAIRPERSON ORDWAY: We have a prerequisite item that needs to be discussed at all?

MR. HIGHT: No, all the assignments and other forms have been completed.

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EXECUTIVE OFFICER DEDRICK: For your informa-
tion, Powerine has notified the state that they will not
be able to pay for the oil which they took in February and
March. That's \$600,000 a month. So, it's \$1.2 million.
That is covered by the bond which Powerine had to post
when they took the royalty oil sales.

CHAIRPERSON ORDWAY: So, we will not see revenue
losses as a result of that.

EXECUTIVE OFFICER DEDRICK: As far as we can
tell, we're not going to have a revenue loss.

CHAIRPERSON ORDWAY: Any other comments from
staff?

Members?

COMMISSIONER HARVEY: No. I have a question.
I would like, if I can --

CHAIRPERSON ORDWAY: Mr. Harvey has questions.

COMMISSIONER HARVEY: Mr. Counsel, some of what
I get into may delve into the area of confidentiality.
I have not had an opportunity to speak to counsel from
other agencies that may be involved in some of the things
that I will say here. However, what I intend to address is,
I think, already a matter of public record, basically.

First, I would hope that, even behind the bond,
that we have filed a lien against the Huntington Beach
operation, because I have some feelings that we may have

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trouble from the bonding company. I understand that was to have been done last Monday.

EXECUTIVE OFFICER DEDRICK: That has been done.

COMMISSIONER HARVEY: I don't know whether that preceded the filing. Actually, Powerine filed under Chapter 11 on the 26th. I don't have the time. I have a case number. I have the judge to whom it is assigned and I have some off-the-record comments that have been made back to various state agencies by people who are representing Powerine.

I also might give you for your record the attorney of record who will represent Powerine in their bankruptcy. It is Herbert Young. It will be General Counsel. His address is 12354 Lakeland Road, Sante Fe Springs, 90670. Other attorneys who have represented Powerine have advised me that they will no longer do so unless they are specially retained on tax matters.

Secondly, as a matter of public record, there are presently two petitions involving Powerine under submission, I guess, at the State Board of Equalization. One involves something over a million dollars worth of sales taxes and interest and penalties thereon. The other involves something over \$100,000 in corporate franchise taxes that have been petitioned from an assessment made by the Franchise Tax Board.

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1 The State of California, I hope, is adequately
2 protected under its bonds. I don't know where we will
3 stand with respect to these taxes.

4 I have been told that all of the assets of
5 Powerine are encumbered greater than their value by
6 bank loans. That means that we're treading on relatively
7 infirm ground to get a heck of a lot of money.

8 Is it proper to discuss the Long Beach contract
9 at this point, Mr. Counsel?

10 MR. HIGHT: It is not an element of this
11 particular calendar item.

12 COMMISSIONER HARVEY: But I think the position
13 and condition of the assignee of this particular contract
14 is.

15 Since this is going to an entity that will also
16 be involved in that contract, that's my question; whether
17 or not any discussion of that bench contract or what I
18 would recommend we do is premature?

19 MR. HIGHT: I think it's premature based upon
20 the fact that we have adequate bonding to cover the
21 state's liability exposure, if any, in this transaction.

22 COMMISSIONER HARVEY: Subject at this point,
23 I understand, to some extent at least by what action may
24 be taken by bankruptcy court, which may not be in existence
25 by Monday. There may not be a bankruptcy court on Monday

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1 unless Congress does something before today is over. All
 2 of the bankruptcy judges in the State of California will
 3 be without any authority to act period. There is some
 4 possibility that all heck is going to break loose. That's
 5 why I wanted to make certain that we do everything we can
 6 to protect our interest today.

7 MR. HIGHT: I believe we have.

8 COMMISSIONER HARVEY: I think I've got all I
 9 need into the record.

10 CHAIRPERSON ORDWAY: Any other questions?
 11 Do we have a recommendation?

12 COMMISSIONER HARVEY: I have no problem
 13 in recommending that we approve, subject to the conditions
 14 the staff has imposed. At this point I don't know whether
 15 approval of the trustee in bankruptcy, whoever that may
 16 wind up to be, is something that is necessary. I'd like
 17 you to look into that as an additional condition.

18 If you find that it's necessary, fine. If you
 19 don't, then that's okay with me.

20 But I would like to give that caveat. You may
 21 not find anybody that can. That's what our problem is
 22 liable to be with the bonding company.

23 I would then recommend that we accept the
 24 staff recommendation on the assignment of the involved
 25 lease from Powerline to Edgington.

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COMMISSIONER ORDWAY: Second?

MR. HIGHT: I must make a statement for the record.

Susan Wallace is sitting for the Lieutenant Governor in a non-voting capacity.

CHAIRPERSON ORDWAY: That's right.

Without objection, it's so moved.

Any other items to come before the Commission?

EXECUTIVE OFFICER DEDRICK: That's it.

(Thereupon the hearing adjourned at 10:10 a.m.)

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CERTIFICATE OF SHORTHAND REPORTER

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3 I, EILEEN JENNINGS, a Certified Shorthand
4 Reporter of the State of California, do hereby certify:

5 That I am a disinterested person herein; that
6 the foregoing Special Meeting of the State Lands
7 Commission was reported in shorthand by me, Eileen Jennings,
8 a Certified Shorthand Reporter of the State of
9 California, and thereafter transcribed into typewriting.

10 I further certify that I am not of counsel or
11 attorney for any of the parties to said hearing nor in
12 any way interested in the outcome of said hearing.

13 IN WITNESS WHEREOF, I have hereunto set
14 hand this 15th day of April, 1984.

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18 EILEEN JENNINGS
19 Certified Shorthand Reporter
20 License No. 5122
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